

Response from the Workforce Development Board of South Central WI  
Response to Audit of Financial System and Practices by Jefferson Wells  
June 22, 2010

***Whistleblower Policy:***

**Observation:** The Agency does not have a documented whistleblower policy.

**Recommendation:** The Recovery Act has very specific whistleblower provisions. To better understand the applicability of these provisions, attached is the link to the United States Office of Management and Budget's website <http://www.recovery.gov/Contact/ReportFraud/Pages/WhistleBlowerInformation.aspx>. Best practices would include communication of the agency's Whistleblower Policy to all employees to facilitate the reporting of any improprieties occurring within the organization. Best practices also include creating methods of allowing anonymous reporting of fraud or abuse.

Whistle blower policy has been included into the Fiscal and Accounting Policies and Procedures Manual that was adopted by the Workforce Development Board on June 8, 2010.

***Background Checks:***

**Observation:** The agency does not conduct background checks on its employees, and lacks a policy requiring background checks. Background checks for new hires, employees transferring to positions of management or cash handling functions, or for those employees involved in programs with potential liability (e.g. interaction with children, access to recipient homes, etc.) are important to reduce risk to the agency.

**Recommendation:** Best practices would include performing background checks on employees before transitioning to positions that have senior management responsibilities, cash handling duties, or program requirements.

Currently, the organization has conducted background check for the Executive Director and Financial Manager using an outside source. Additionally, the CCAP system is checked for all other hires.

A new hire section has been added to the Employee Handbook. Background checks are completed for the Executive Director, Deputy Director and Financial Manager. The State CCAP system is consulted for all other hires. If CCAP indicates a problem which could potentially cause risk to the organization, then a more in-depth background check will be conducted.

### ***Segregation of Duties:***

**Observation:** Due to the limited number of financial staff maintained by the Agency (currently one full time and one intern), adequate segregation of duties and restricted system access is not possible. The agency seeks to mitigate the risk resulting from a lack of segregation through independent management oversight. However, some gaps in management oversight were noted (see below).

**Recommendation:** The board of directors and management should consider establishing an internal control policy that addresses system access related to executing or reviewing certain financial transactions. In most cases it is optimal that a minimum number of individuals have the ability to perform certain tasks, while management, supervisors or other individuals that are not involved in the process have the ability to review the transactions that were performed. Best practices would include creating documented, independent reviews, timely reconciliations, and sign offs by preparers and reviewers.

Each accounting cycle, the Finance Manager will prepare a list of general entries and have the Executive Director approve prior to posting. In addition, the cross over reconciliation between the general ledger and the states core system will be review and approved by the Executive Director prior to submission. Also see the response to management oversight below. As a best practice routines are reviewed and approved by the Executive Director. As an example, the financial statements are reviewed monthly prior to the core reconciliation being prepared.

### ***Management Oversight:***

**Observation:** The lack of a consistent and documented management review process increases the risk that errors and/or fraudulent activities may not be detected on a timely basis. Noted deficiencies include:

1. Accounting – The lack of an independent review of all financial transactions against supporting documentation poses the risk of inaccurate and/or invalid accounting transactions being processed.
  - The external audit report for the year ended 6/30/2009 cited a material weakness in that the SCWWDB does not have a sufficient internal control structure to complete the financial statement preparation. This finding was discussed in the January 13, 2010 Executive Committee meeting. The agency plans to bid out the financial statement preparation in March 2010.
  - The manual journal entries posted to the system did not contain evidence of independent review.
  - A reconciliation of activity included on CORE to the Agency's general ledger is prepared in Excel; however, there is no independent review of the reconciliation.

The Board will adjust both practice and Fiscal & Accounting Policies and Procedures Manual.

Change to Practice: The Financial Manager will provide the Executive Director a listing of the manual journal entries. This process will be added to 8.20 of the Fiscal & Accounting Policies and Procedures Manual.

Add Section on Government Reporting – 8.50 – which states the Financial Manager will provide a reconciliation of financial statements to the CORE report to the Executive Director at the end of each accounting cycle.

2. **Accounts Payable - Lack of independent review and proper supporting documentation in the Accounts Payable process poses the risk of unauthorized payment of invalid or fraudulent invoices. Management review becomes especially necessary where proper segregation of duties does not exist (see also *Segregation of Duties* section above).**

- **There was no evidence that the expense reimbursement requests of the Contracts Procurement Manager and the Executive Director were independently reviewed by a higher level employee or Board member. Also, the Executive Director's procurement card activity was not reviewed by a Board member. Instances were also noted in which the procurement activity of other employees did not contain evidence of review by the Executive Director.**

Section 11 of the Fiscal & Accounting Policies and Procedures Manual has been updated on June 8<sup>th</sup> to include:

The employee shall maintain detailed vendor and signed receipts which list each item purchased and the amount. The summary total portion of the receipt must be included with the detail portion. The employee shall initial and date each invoice that the goods and/or services have been received and are in accordance with all board and regulatory requirements. The employee shall complete an expenditure log that shows each expenditure, the purpose and where it should be charged. This should be done on a shared electronic file so the Operations Manager may access whenever necessary. When the bill from the credit card company is received, the employee shall review each charge and attach the supporting documentation to the statement prior to submission for approval. The bill should first go to the Operations Manager who will attach the log as a face page to the bill and forwards to the Executive Director for approval. To avoid late payment fees, this shall be accomplished within five working days of receipt. These statements shall be submitted to the Executive Director/designee for approval. In the case of the Executive Director and the Deputy Director, they shall review and approve for the other. Charges without supporting documentation will not be paid by WDB and shall be the responsibility of the individual. The Executive Director must approve any and all exceptions.

Additionally, the Board Chair or designee will sign the Credit Card voucher of the Executive Director.

- The appropriate program to be charged is not always clearly documented. One instance was noted in which ARRA was charged for the initial purchase of goods (\$54.49); however, upon the return of a portion of the purchase (\$22.05), the return was allocated among all programs.
- Timesheets for the hourly employees are not consistently signed by their supervisor. Documents for three payrolls were reviewed, and five instances were identified in which an hourly employee's time sheet was not signed by their supervisor and one instance in which a time sheet was not on file, even though the employee was paid.

Reviewed our practices and are applying more rigor – timesheets are attached to the check register for the Executive Directors review. Updated section 4.46 of the Fiscal & Accounting Policies and Procedures Manual.

- Instances were noted in which a credit card summary receipt was provided as support rather than the detailed receipt. As such, compliance with policy could not be verified

Update Financial procedure on June 8, 2010 – section 11.2 detail and summary portion must be included.

The employee shall maintain detailed vendor and signed receipts which list each item purchased and the amount. The summary total portion of the receipt must be included with the detail portion. The employee shall initial and date each invoice that the goods and/or services have been received and are in accordance with all board and regulatory requirements. The employee shall complete an expenditure log that shows each expenditure, the purpose and where it should be charged. This should be done on a shared electronic file/Google docs so the Operations Manager may access whenever necessary.

### 3. Banking/Treasury

- While still a current member, one Board member has changed positions on the Board and should no longer be a signatory; however, the signature card(s) have not been changed.

All signature cards are in the process of being updated; this will be completed by July 1, 2010.



- With automated signatures applied to the checks by the system, the Finance Manager's system access and access to the check stock could allow them to circumvent the Executive Director's oversight in generating payments.

Our practice of check register and payroll check review will be upgraded to account for check number sequence. The ending check number used on the prior run will be noted on the current check register which will allow the executive director to assure all checks are properly accounted for. When the check register is approved, it will also signify the review of the sequence number of check stock.

- The electronic bank reconciliation in the Great Plains software used by the agency pulls the checkbook balance from a source other than the general ledger trial balance. Agency personnel were aware of a difference between the checkbook amount in the reconciliation and the detail trial balance and were working to resolve the cause.

Independent

ent consultant made the necessary corrections to Great Plains software and the bank reconciliation agrees with general ledger.

- Independent review of the bank reconciliation was not evidenced by the Executive Director for one of four bank reconciliations reviewed during fieldwork.

We missed one – this is a regular practice.

4. Other – The agency provides a benefit to eligible employees in which \$1,000 in medical expenses not paid by their insurance is reimbursed. There is no definition of what qualifies as “medical”. During fieldwork, it was observed that reimbursement is being made on over the counter items such as Tylenol and Airborne.

The Board changed our practice to only include items where the receipt from the pharmacy/retail vendor designates the item as eligible for flex spending.

Recommendation: In light of the limited number of staff, best practices would include requiring basic management oversight and review processes to ensure accurate financial reporting and oversight. Senior management should be responsible for reviewing and approving accounting transactions and reconciliations, accounts payable transactions, cash disbursements, and other fiscal matters. Management should also consult with a tax professional regarding the tax implications of reimbursement for medical expenses.